

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6896

BILL NUMBER: HB 1498

NOTE PREPARED: Feb 23, 2009

BILL AMENDED: Feb 19, 2009

SUBJECT: PERF and TRF Death Benefit.

FIRST AUTHOR: Rep. Ruppel

FIRST SPONSOR:

BILL STATUS: 2nd Reading - 1st House

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) This bill:(1) reduces from 15 to 10 the number of years of creditable service that a member of the Public Employees' Retirement Fund (PERF) must earn for a surviving spouse or surviving dependent to receive a survivor benefit;
(2) removes the requirement that a member of the Indiana State Teachers' Retirement Fund (TRF), with 10 years of creditable service, must be 65 years of age at the time of death for a surviving spouse or surviving dependent to be eligible for a survivor benefit;
(3) provides that a surviving spouse or surviving dependent of an active or inactive member of PERF or TRF is entitled to a survivor benefit. (Current law provides that a surviving spouse or surviving dependent of an active service member of PERF or TRF is entitled to a survivor benefit.);
(4) makes the changes retroactive to January 1, 2007;
(5) provides that PERF and TRF are required to make a reasonable effort to notify certain surviving spouses or surviving dependents of changes made by this act; and
(6) provides a cost-of-living adjustment (COLA) in 2010 for certain members (or survivors or beneficiaries of members) of the TRF.

Effective Date: (Amended) January 1, 2007 (retroactive); Upon passage; July 1, 2009.

Explanation of State Expenditures: *Public Employees' Retirement Fund (PERF):* (1) The impact of reducing the number of years of creditable service required is shown in the table below.

	State	Political Subdivisions	Total
Increase in Unfunded Accrued Liability	\$4,910,000	\$5,720,000	\$10,630,000
Increase in Annual Cost	\$757,000	\$1,137,000	\$1,893,000
Increase in Annual Cost (as % of Pay)	0.049%	0.042%	0.058%

There is no change in the funded status from 97.5%. The funds affected are the state General Fund (55%), or \$416,350, and various dedicated funds (45%), or \$340,650. The percentage split represents the split in the personal services of the state Budget.

Teachers' Retirement Fund (TRF): (2) The impact of reducing the number of years of creditable service required is shown in the table below:.

	Pre-1996 Account*	1996 Account**	Total
Increase in Unfunded Accrued Liability	\$3 M	\$9 M	\$12 M
Increase Annual Cost	\$20,000 *	\$800,000	\$820,000
Increase in Annual Cost (as % of Payroll)		0.4%	0.4%

* Since the Pre-1996 Account is on a pay-as-you-go basis, the annual cost is the increase in the amount of benefits paid each year. The initial impact is expected to be about \$20,000 (without considering retroactive application), increasing to a maximum benefit payout increase of about \$400,000 in 20 years, gradually decreasing after 20 years. The ultimate cost of this proposal for the Pre-1996 Account is the increase in the present value of benefits due to these changes, approximately \$3 M. The fund affected is the state General Fund.

** The 1996 Account is prefunded. The ultimate cost for this proposal for the 1996 Account is the increase in the present value of benefits due to these improvements, approximately \$9 M.

(5) Requiring both PERF and TRF to make reasonable efforts to notify certain surviving spouses or surviving dependents will increase mailing costs associated with these efforts. The proposal defines reasonable to mean mailing notification of changes as proposed to the member's last known address. The funds affected are the respective administrative funds for both PERF and TRF.

(Revised) (6) *TRF COLA*: The bill also provides a COLA for TRF members (or survivors or beneficiaries of members). The amount of the COLA as a percent of the pension portion (excluding annuity) of a member's total benefit (including past postretirement increases), payable after December 31, 2009, will be as follows:

2.0% for members retired before July 2, 2001;
1.0% for members retired after July 1, 2001, and before July 2, 2007.

The increase in the present value of benefits from the COLA provided in this bill totals \$92.7 M for the Pre-1996 Fund and \$5.9 M for the 1996 Fund. This represents the total fiscal impact attributable to the bill and

is shown in the second column of Table 1.

Table 1. Increase in Present Value of Future Benefits from COLA.			
	COLA Provided in Bill (2%/1% on 1/1/2010)	Amount Recognized in Valuation (1.5% on 1/1/2010)	Net Increase Over 1.5% Assumption
Pre-1996 Fund	\$92,7000,000	\$92,300,000	\$400,000
1996 Fund	\$5,900,000	\$7,000,000	(\$1,100,000)
Total	\$98,600,000	\$99,300,000	(\$700,000)

The fund affected for the Pre-1996 Fund is the state General Fund. For the 1996 Fund, school corporations contribute a percentage of payroll, currently 7.25%.

The increases in projected benefit payments through FY 2012 are shown in Table 2 and represent the difference between the projected benefit payments with the proposed COLA and the projected benefit with no COLA. This table should be compared with the second column in Table 1, above.

Table 2. Estimated Increase in Projected Benefit Payments				
	FY 2009	FY 2010	FY 2011	FY 2012
Pre-1996 Fund	\$0	\$4,900,000	\$9,800,000	\$9,800,000
1996 Fund	\$0	\$250,000	\$500,000	\$500,000
TOTAL	\$0	\$5,150,000	\$10,300,000	\$10,300,000

(Revised) Background Information: The June 30, 2008, valuation for TRF included an assumed 1.5% annual compound COLA in accordance with IC 5-10.4-2-4 (b). The third column in Table 1 shows the estimated increase in the present value of future benefits resulting from this 1.5% COLA assumption, and the final column in Table 1 shows the net increase in the present value of future benefits over the assumed 1.5% COLA that would be shown in the June 30, 2008, valuation upon passage of this bill.

[According to IC 5-10.4-2-4 (b), "*The actuarial investigation and the board shall include in the determination of the liability, contribution rate, and appropriation the amount necessary to fully fund any past and estimated future cost of living increases for members of the pre-1996 account and the 1996 account, amortized over thirty (30) years. The actuary shall consult with the budget agency in making this determination.*"]

Explanation of State Revenues:

Explanation of Local Expenditures: See *Explanation of State Expenditures*.

Explanation of Local Revenues:

State Agencies Affected: All

Local Agencies Affected: Those units with members in PERF and school corporations with members in TRF.

Information Sources: Doug Todd of McCready & Keene, Inc., actuaries for PERF, 317-576-1508; John Dowell, Alliance Benefit Group, actuaries for TRF, 317-803-7832.

Fiscal Analyst: James Sperlik, 317-232-9866.

DEFINITIONS

Cost-of-Living Adjustment - An across-the-board increase (or decrease) in wages or pension benefits according to the rise (or fall) in the cost of living as measured by some index, often the Consumer Price Index (CPI).

Present Value— The present value (sometimes called actuarial present value) of an amount or series of amounts payable or receivable in the future is their current worth after discounting each such amount at an assumed rate of interest and adjusting for the probability of its payment or receipt.

Unfunded Actuarial Liability -The actuarial liability, sometimes called the unfunded liability, of a retirement system at any time is the excess of its actuarial liability at that time over the value of its cash and investments.